

Recommendation	Not Rated	
Price Band	Rs.100 – Rs.115	
Bidding Date	7 th -9 th Dec 2009	
Book Running Lead Manager	JM Financial and others	
Sector	Power	
Retail Application- Detail At Cut off Price		
Number of Shares	900	
Application Money	99000	
Amount Payable	99000	
Financials (Rs in Crs)	FY09	H1 FY 10
Revenue including other income	1835.02	875.35
EBIDTA	548.99	503.84
PAT	276.69	267.58
P/B at diluted equity for price of Rs. 115	-	4.16
P/E at diluted equity for price of Rs. 115 (H1 FY 10 Annualised)	-	34.66
Issue Size (Rs)		
	2700 Cr	
Post Issue Promoter Holding		
	78.12%	
Offer structure for different categories		
QIB (Excluding Mutual Fund)	57%	
Mutual Fund	3%	
Non-Institutional	10%	
Retail	30%	
Lot Size	60	
Post issue Equity @ 115 (Rs. in cr)	1611	
Post issue Equity @ 100 (Rs. in cr)	1645	
Face Value (Rs.)	10	
Sunil Jain, VP – Equity Research Ph- (022)-3027 2211 E-Mail: sunil.jain@nirmalbang.com Abhishek V Bhavsar Ph –(022)-3027 2216 E-Mail: abhishek.bhavsar@nirmalbang.com		

Background

JSW Energy Ltd. (JSWEL) is a power project development company, which is developing, and will operate and maintain, power projects in India. The company has two thermal power projects under operation, with a combined installed capacity of 860 MW.

JSWEL is a part of the JSW Group, a leading business group in India. JSW Group has a presence in high growth sector like Steel, Energy, Aluminium, Cement, Infrastructure and Logistics. Post IPO holding of Promoter and Promoter Group would be 78.12%.

JSWEL at present has two power projects under operation:

- JSWEL SBU I: This power plant has 2 X 130 MW dual fuel (coal and gas) units operational in Vijayanagar, Karnataka, with total capacity of 260 MW. It has long term PPA with JSW Steel Ltd (JSWSL) and short term PPA with JSW Power Trading Company Limited (JSWPTC). As of September 30, 2009, we sold 90.22% of power under short-term PPAs and through the power exchanges and 9.78% of power under long-term PPAs.
- JSWEL SBU II: This power plant has 2 X 300 MW coal based units operational in Vijayanagar, Karnataka, with total capacity of 600 MW. It has a 1:1 ratio for Long term and Merchant power sale.

JSWEL at present has two power projects under construction:

- JSW Energy Ratnagiri Ltd (JSWERL): This project will have four units of 300 MW each, with combined capacity of 1200 MW. The first unit of 300 MW will be commissioned by January 2010 and each subsequent unit at 3 month intervals. The power project will be fully commissioned by October 2010. This plant will have long term and merchant power combination on 1:1 basis with first capacity development going to long term PPA.

- Raj WestPower Ltd (RWPL) Phase I: This project will consist of Lignite-Fired eight units of 135 MW each, with a combined capacity of 1080 in Barmer, Rajasthan. The first unit of 135 MW is completed and operational from November 2009. Each subsequent unit will be developed with interval of two to three months and entire plant will be commissioned by October 2010. The plant has 100% power off take in long term purchase.

At present there are two power projects under implementation phase:

- RWPL Phase II: This project is implementing an additional 2 X 135 MW power plant at Barmet, Rajasthan. The plant will be commissioned by January 2013. This plant will have 100% power sale on short term basis.
- Kutehr – Himachal Pradesh: This project will have run-of-the-river hydroelectric power project with combine capacity of 240 MW (3 X 80). The project will be commissioned by December 2015 and it will have 100% long term power sale.

In addition to this JSWEL is developing four coal based power projects of 3200 MW, 1320 MW, 1600 MW and 1620 MW in Maharashtra, Chhattisgarh, West Bengal and Jharkhand respectively. The plant in Chhattisgarh is expected to be first plant and will be commissioned by August 2014.

Objects of the Issue:

- To partially finance construction and development of the Identified Projects aggregating to 2,790 MW in capacity; 400 KV transmission project and mining venture. Total 2142.53 Cr. is the amount proposed to be financed from the IPO.
- Repayment of corporate debt of around Rs. 470 Cr.

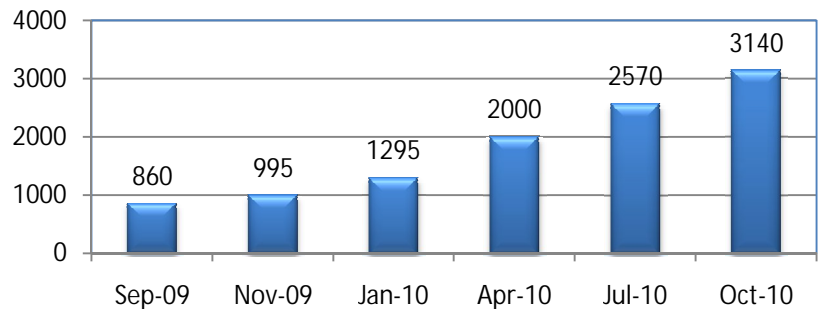
A discount of Rs. 5 to the issue price is offered to Retail Individual Bidders

Investment Positive:

- Power projects to be commissioned in near future: JSWEL has current capacity of 860 MW. Along with this the capacity addition will be happening on a fast track basis. The total capacity to be added by October 2010 is 2280 MW. This will make the total capacity of JSWEL to 3140 MW. The entire infrastructure, resources and management team are in place. This makes the achievement of this capacity addition plan feasible for JSWEL. Recently

commissioned 600 MW SBU II project will also have full benefit of power generation in H2 FY 10. Out of the 600 MW the first unit of 300 MW was commercially operational in July 2009 whereas 2nd unit became commercially operational in September 2009.

Capacity Building Plan of JSW Energy Ltd in MW



- Secured fuel supply: One of the key factors in the power generation sector is the availability of high quality and cost efficient fuel in adequate amounts throughout the lifetime of a power plant. JSWEL has an agreement with JSWSL for the supply of fuel. Along with this JSWEL has also applied for coal linkages by the Ministry of Coal for its SBU I Power Project to reduce the cost. Along with this JSWEL has an agreement with Sungai Belati for its SBU II and Ratnagiri projects. JSWEL has entered into a coal sales purchase contract (CSPC) with Sungai Belati Coal, Indonesia for the supply of coal. Under amended CSPC JSWEL - SBU II agreed to purchase 650000 MT of steam coal per annum in fiscal 2010 and 2 million MT per annum from fiscal 2011 onwards. In case of JSWERL, Ratnagiri project, the agreement has been signed to provide approximately 250000 MT of steam coal per annum from fiscal year 2010, 3.3 million MT per annum of steam coal in fiscal 2011 and 4 million MT per annum of steam coal in fiscal 2012, with an option to purchase an additional one million MT per annum of steam coal in fiscal 2014 and 5.5 million MT per annum of steam coal from fiscal 2015 onwards. The coal will be of high quality with calorific value exceeding 5000 Kcal/Kg. Government of Rajasthan has agreed to provide support to Barmer Phase I and II projects for uninterrupted fuel supply.
- Demand supply mismatch of power to continue over long period: India is amongst the fastest growing economies globally and has grown at an average rate of 8.5% per annum during the last five years. The Indian power sector has historically been characterized by energy shortages which have been increasing over the years. In

the period from April 2009 to September 2009, peak energy deficit was estimated to be at 9.9%. In addition to this due to inadequate supply and distribution infrastructure the per capita consumption of energy in India is extremely low in comparison to most other parts of the world. In the implementation of the last three five year plans, covering fiscal years 1992 to 2006, less than 50% of the targeted additional energy capacity was added. This results into a huge gap to be abridged by power generation projects.

- Long term value from tie up with Toshiba Corporation: JSWEL entered into a joint venture with JSWSL and Toshiba Corporation for the design, engineering, manufacture, assembly and sale of sub-critical and super-critical steam turbines and generators which will range in capacity from 500 MW to 1,000 MW. A joint venture company, Toshiba JSW Turbine and Generator Private Limited ("Toshiba JSW") has been incorporated. In Toshiba JSW, JSWEL holds a 20%, JSWSL holds a 5% and Toshiba Corporation holds a 75% shareholding interest. Under this joint venture, Toshiba Corporation will grant a licence to and transfer technology for the manufacturing of steam turbines and generators to Toshiba JSW. The equipment manufactured under this joint venture would be primarily used for domestic sale and JSWEL, as a joint venture partner, expect to receive preference in the sale of equipment manufactured. Toshiba JSW is expected to commence production in phases starting 2011.

Risk Factors:

- Delay in Execution of projects: Power projects have long gestation periods due to the processes involved in commissioning power projects. The schedule completion targets for power projects are estimates and are subject to delays as a results of, contractor performance shortfalls, unforeseen engineering problems, dispute with workers, availability of financing, unanticipated cost increase or change in scope and inability in obtaining certain property rights, fuel supply and government approvals, any of which could give rise to cost overruns or the termination of a power projects development. The timely execution of the projects is very important for generating any kind of revenue.
- Reduction in Merchant Power Tariff: The current profits on book are majorly driven by high proportion of merchant power in power sales as well as high tariff rate for the same. In future any reduction in these tariffs will adversely impact the profitability of JSWEL.

- Increasing coal prices: The rise in coal prices will make the fuel cost high for JSWEL. Any upward movement in coal prices will impact the profitability of JSWEL.

Valuation & Recommendation:

Peer Comparison

We believe that Adani Power is the best comparable company as both the companies are implementing large power plants, have near term project completion schedule and are dependent on imported coal.

(Rs.in Cr)	Adani-Power	JSWEL
Networth	5687	4448
Loan Raising Capacity (Debt Equity: JSWEL - 3:1, Adani- 4:1)	22748	13343
Total Resources	28435	17790
Corresponding power Capacity	6600	4000
Equity Capital	2180	1611
CMP	92.5	115.0
Market Cap	20165	18522
Borrowing	22748	13343
Enterprise Value	42913	31865
EV/MW	6.50	7.97
P/BV	3.55	4.16

On the basis of P/BV and EV/MW, JSWEL at the upper price limit of Rs. 115 seems to be overvalued than its peer. But we believe on the basis of capacity addition by October 2010 the P/BV ratio for the upper price limit comes down to 3.88 and 3.11 for FY10E and FY11E respectively. Also the share price of 115 is at the PE of 31.30 and 15.69 for Earnings of FY10E and FY11E respectively. Considering FY11E PE of 15.69 and P/B of 3.11 we believe JSWEL IPO is fully priced.

Operational Capacity (MW)	Adani-Power	JSWEL
Present	330	860
FY10	1320	1295
FY11	1980	3140
FY12	6600	3140

Different project Status of JSW Energy Ltd, Adani Power
 JSW Energy Ltd

Project	MW	Project Cost (Rs in Crs)	Status	Commissioning Date	Completion Date
JSWEL SBU I	260	-	<ul style="list-style-type: none"> Operational 2 X 130 MW dual fuel (Coal and gas) 	2000	2000
JSWEL SBU II	600	1860	<ul style="list-style-type: none"> Operational 2 X 300 MW coal fired 	1st Unit of 300 MW by April 2009	Sep-2009
JSWREL, Ratnagiri	1200	4500	<ul style="list-style-type: none"> Land acquired Fuel secured from Sungai Belati 50:50 Long term and short term PPA 	1st Unit of 300 MW by Jan-2010	Oct-2010
RWPL Phase I	1080	5000	<ul style="list-style-type: none"> Land acquired Fuel supply support from state government Long term PPA with state government 	1st Unit of 135 became operational from Nov-2009	Oct-2010
RWPL Phase II	270	1350	<ul style="list-style-type: none"> Under implementation 	Jan-2013	Jan-2013

Adani Power

Project	MW	Project Cost (Rs in Crs)	Status	Commissioning Date	Completion Date
Mundra Phase I & II	1320	4350	<ul style="list-style-type: none"> BTG and BoP contracts entered Coal supply agreement obtained Long term PPA with GUVNL 	1st Unit of 330 MW by Jul-2009	Feb-2010
Mundra Phase III	1320	5796	<ul style="list-style-type: none"> EPC contracts entered Coal Supply agreement obtained Long term PPA with GUVNL and AEL 	1 st Unit of 660 MW by Jan-2011	June-2011
Mundra Phase IV	1980	8960	<ul style="list-style-type: none"> EPC contracts entered Coal Supply agreement obtained Long term PPA with UHBVNL and DHBVNL 	1 st Unit of 660 MW by Aug-2011	Apr-2012
Tiroda	1980	9263	<ul style="list-style-type: none"> BTG and BoP contracts entered Captive mines allotted Long term PPA with MSEDCL 	1 st Unit of 660 MW by Jul-2011	Apr-2012
Dahej	1980	8881	<ul style="list-style-type: none"> NA 		FY 2013
Kawai	1320	5889	<ul style="list-style-type: none"> NA 		FY 2013

Profit & Loss a/c.

Rs in Cr (Consolidated)	H1 FY 10	FY 09
<u>Total income from operations</u>	863.59	1835.02
Other Income	11.77	17.14
Total Income	875.35	1852.16
Purchase of Power	0.00	574.44
Cost of Fuel	324.42	620.24
Employee Cost	12.58	27.06
O & M and other expenses	34.51	81.43
Total Expenditure	371.88	1303.51
EBIDTA	503.47	548.65
Depreciation	46.74	60.21
EBIT	456.73	488.45
Interest	109.55	120.94
Preliminary expenses w/o	1.12	0.00
EBT	346.07	367.50
Tax	78.86	91.15
Profit before Minority Interest	267.20	276.35
Extra Ordinary Items	0.00	0.00
Minority Interest	0.00	0.00
Net Profit after Minority Interest	267.20	276.35

Balance Sheet

Rs in Cr (Consolidated)	30 th Sep 09	31 st Mar 09
Share Capital	1366.43	546.57
Reserve & surplus	381.15	931.20
Less: Goodwill on consolidation	17.12	17.18
Net Worth	1730.46	1460.59
Secured Loan	7575.69	5926.59
Unsecured Loan	100.58	0.58
	7676.26	5927.16
Minority Interest	15.22	15.22
Capital Employed	9421.95	7402.97
Gross Block	2964.22	1151.89
Less:- Depreciation	582.20	534.92
Net Block	2382.02	616.97
Capital WIP	7987.43	7918.99
Investments	199.47	170.47
Current Assets		
Inventories	136.85	32.27
Sundry Debtors	347.44	140.94
Loans & advances	303.87	195.77
Cash & Bank	158.96	175.10
	947.11	544.08
Current Liabilities	1991.52	1763.72
Provisions	7.17	2.37
Deferred Tax Liability	95.40	81.45
Net Current Assets	(1146.98)	(1303.47)
Capital Deployed	9421.95	7402.97

NOTE

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